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VIRGINIA BUSINESS REPORT

Eleven issues of the Report are published annually, with no December issue. Therefore, we take this opportunity to wish all of our readers a Happy Holiday Season.

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 338 November, 1988

Business in Virginia October, 1988 Data

Only one economic indicator moved dramatically in October: the dollar volume of Virginia's building permits climbed 17.2 percent compared to October 1987. Well below last month's spectacular 56.8 percent rise, but nevertheless a strong, double-digit move. The cumulative January-October increase for building permits was 13.3 percent, over 10 percentage points below the January-October 1987 growth of 24.1 percent. The building boom has continued in Virginia during 1988 but with a clearly slower growth rate than in 1987.

Other than building permits, our economic indicators were rather flat in October. Bank debits did fall 6.9 percent, but that is a modest monthly change for such a volatile series. Both electricity and water consumption were up, implying business output is rising, but the gains were under 3 percent.

New car sales slipped again in October, down 1.3 percent versus last October. Similarly, sales per store at our sample of stores recorded a 1.0 percent drop — competition remains fierce among our expanded number of retail establishments (up 2.9 percent through the second quarter).

Looking back to September, we now have the Department of Taxation figures for that month's retail sales (last column, Table II). The statewide increase in total retail sales was a modest 1.3 percent, limited by last September's very strong performance. That brings the January-September advance in Virginia's taxable sales to 6.2 percent. The current and lagged retail sales reports indicate Virginia households are spending more than a year ago, but their retail buying is not growing as rapidly as their income.

We look for about a 6 percent statewide increase in total retail sales during the Christmas season, a season which appears to have been kicked off in late October this year. A 6 percent sales increase means real (inflation-adjusted) gains in retail trade, but only in the 2 - 3 percent range.

The shining star for Virginia remains strong, steady job growth. September payroll jobs were up 4.3 percent; and for the year to date, up 4.2 percent. That is convincing evidence of the present robust health of Virginia's economic expansion.RLP

The National Economic Outlook

During the Presidential campaign we heard few specifics about how to reduce the Federal budget deficit. The next few months will more than counterbalance that dearth — you will be bombarded with alternative proposals for deficit reduction, plus explanations and criticisms of the proposals. We will be commenting on the proposals, too, in the winter issues. For now, only three points need to be made.

First, we are making progress in Federal deficit reduction, from the peak of $221 billion in fiscal year 1986

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change October, 1988 from October, 1987

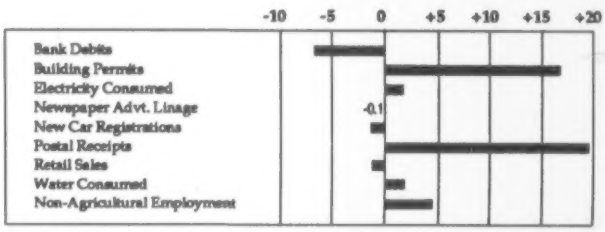
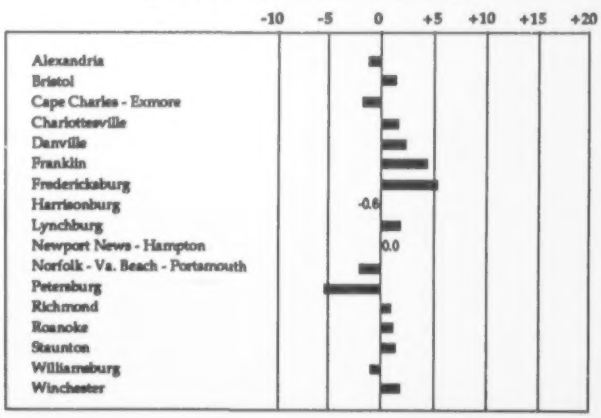


Chart II

City Indices

Percentage Change October, 1988 from October, 1987



SELECTED BUSINESS AND ECONOMIC INDICATORS FOR 17 CITIES

TABLE I October, 1968

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	SEPTEMBER NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		389.1	197.8	140.3	121.9	144.8	147.8	98.1	174.0	472.5
Alexandria	153.3	525.7	440.0	155.5	N.A.	133.9	202.7	90.2	163.5	N.A.
Bristol	183.1	N.A.	125.0	96.8	73.2	105.3	122.6	118.2	133.4	365.6
Cape Charles - Exmore	125.1	N.A.	606.9	134.0	N.A.	89.4	N.A.	N.A.	105.7	210.0
Charlottesville	212.5	160.2	190.2	134.9	N.A.	116.1	115.4	144.0	285.3	393.9
Danville	135.8	N.A.	185.6	117.7	134.2	87.1	104.5	97.5	N.A.	273.7
Franklin	148.3	N.A.	111.1	122.0	175.4	82.0	N.A.	96.7	127.8	326.7
Fredericksburg	361.5	247.4	412.4	N.A.	174.7	169.7	N.A.	92.1	113.5	1990.2
Harrisonburg	191.0	295.9	696.4	N.A.	176.8	81.2	N.A.	155.2	188.8	357.5
Lynchburg	260.2	406.4	189.8	117.9	N.A.	91.5	100.6	123.4	179.4	1270.0
Newport News - Hampton	159.2	N.A.	407.4	119.6	107.4	85.5	146.0	118.0	179.3	N.A.
Norfolk - Va. Beach - Portsmouth	170.3	457.8	225.3	145.4		91.8		89.3	260.8	N.A.
Petersburg	123.8	89.6	235.1	N.A.	36.2	59.1	136.8	121.9	170.3	N.A.
Richmond	166.0	421.8	179.7	158.3	137.0	112.7	121.6	119.4	144.7	396.1
Roanoke	161.1	355.2	117.1	106.5	173.6	77.8	N.A.	107.0	144.8	428.7
Staunton	163.3	155.4	127.8	N.A.	97.7	69.0		N.A.	168.3	308.2
Williamsburg	187.7	200.3	248.4	171.5	N.A.	126.8	N.A.	114.5	139.8	479.4
Winchester	173.1	426.1	62.1	137.9	254.1	127.2	N.A.	N.A.	N.A.	N.A.

TABLE II October, 1968

Percentage Change from Same Month Last Year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	SEPTEMBER NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	SEPTEMBER RETAIL SALES ‡
The State		-6.9	17.2	2.1	-0.1	-1.3	4.3	2.5	-1.0	1.3
Alexandria	-1.1	15.0	113.2	4.6	N.A.	10.7	5.7	-13.1	-6.3	2.4
Bristol	2.2	N.A.	16.1	5.1	-3.4	30.1	7.3	-9.4	-0.2	-8.9
Cape Charles - Exmore	-1.9	N.A.	13.1	4.9	N.A.	-1.8	N.A.	29.8	-4.8	-4.9
Charlottesville	2.0	-2.5	23.2	4.6	N.A.	3.5	3.8	7.3	1.3	-7.0
Danville	3.4	N.A.	26.1	1.2	-6.7	6.0	2.9	10.5	N.A.	6.6
Franklin	4.3	N.A.	-17.0	7.3	22.5	4.2	N.A.	12.0	-10.5	19.5
Fredericksburg	5.3	14.7	232.0	N.A.	-12.4	-8.8	N.A.	9.5	13.7	7.4
Harrisonburg	-0.6	11.3	56.8	N.A.	8.5	-14.7	N.A.	-1.2	0.9	0.6
Lynchburg	2.8	14.1	103.3	1.2	N.A.	12.4	-0.3	0.0	3.6	-1.6
Newport News - Hampton	0.0	N.A.	95.4	1.1	1.6	-4.9	3.2	2.3	0.7	-5.1
Norfolk - Va. Beach - Portsmouth	-2.9	-18.0	12.5	-3.4		-16.0		-1.1	-1.0	-7.8
Petersburg	-5.1	-52.1	71.8	N.A.	8.1	-28.7	4.3	1.7	-8.3	-7.4
Richmond	0.8	-5.8	-44.2	3.1	1.3	0.8	-0.9	7.7	-3.9	2.0
Roanoke	1.4	-3.8	41.7	4.0	-5.7	3.5	N.A.	6.3	3.7	-5.8
Staunton	2.3	-10.3	-77.0	N.A.	9.1	-22.4		N.A.	12.1	-9.1
Williamsburg	-1.1	17.2	-20.5	-1.7	N.A.	-18.3	N.A.	8.6	2.4	-3.4
Winchester	1.8	-0.9	-81.1	5.1	2.5	-7.7	N.A.	N.A.	N.A.	7.4

TABLE III October, 1968

Percentage Change January - October from Same Period Last Year.

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV. LINAGE	NEW CAR REGIS-TRATIONS	JAN. - SEPT. NON-AGRI-CULTURAL EMPLOYMENT #	WATER CONSUMED	RETAIL SALES †	JAN. - SEPT. RETAIL SALES ‡
The State		-5.5	13.3	4.4	-0.8	-0.1	4.2	0.8	-1.6	6.2
Alexandria	-0.2	14.1	156.6	7.1	N.A.	1.1	6.1	-0.2	-6.8	4.6
Bristol	0.7	N.A.	1.5	3.2	-10.6	13.3	6.1	5.2	-4.7	2.8
Cape Charles - Exmore	-3.7	N.A.	118.0	N.A.	N.A.	10.8	N.A.	N.A.	-9.8	0.5
Charlottesville	5.1	-27.3	10.1	4.3	N.A.	4.7	4.4	2.5	6.1	6.7
Danville	5.0	N.A.	19.2	N.A.	0.7	11.2	2.3	-5.6	N.A.	16.6
Franklin	-3.9	N.A.	26.4	0.8	0.6	-8.3	N.A.	-5.9	-2.9	-9.5
Fredericksburg	4.7	11.4	-19.3	N.A.	-1.5	5.9	N.A.	12.9	3.0	8.9
Harrisonburg	4.8	8.0	13.8	N.A.	12.9	-0.8	N.A.	N.A.	1.7	11.5
Lynchburg	2.2	5.9	-2.5	2.4	N.A.	1.1	0.8	4.7	1.7	3.5
Newport News - Hampton	-2.0	N.A.	8.0	1.3	-2.1	-10.1	3.3	-7.7	-1.2	1.3
Norfolk - Va. Beach - Portsmouth	-0.7	-11.4	6.5	3.4		-9.4		-0.5	-0.8	1.5
Petersburg	1.0	-40.8	-17.8	N.A.	-3.6	0.4	3.9	5.5	0.5	-0.1
Richmond	1.3	-5.6	-5.7	4.2	-1.7	0.0	-0.9	6.8	-2.8	6.8
Roanoke	1.2	2.2	17.5	4.9	-2.6	-4.4	N.A.	3.0	0.4	9.5
Staunton	5.5	-2.8	-7.4	N.A.	N.A.	-1.8		N.A.	11.7	-5.7
Williamsburg	2.0	-9.3	6.1	3.1	N.A.	-2.9	N.A.	5.2	2.1	2.1
Winchester	6.5	7.7	-72.8	2.8	3.6	8.0	N.A.	N.A.	N.A.	11.8

* Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits and Bank Debits, which are excluded because of their highly erratic nature.
\# Virginia Employment Commission data which lags behind current reports.
† Preliminary data based on a survey sample.
‡ Revised data based on sales tax information which lags behind current reports.
⊃ Only total MSA data are available for these areas.

N.A. – Not Available
0.0 – No Change

to $155 billion in fiscal year 1988. In the process, the deficit is changing from a severe threat to a painful thorn, inhibiting action to meet other pressing national needs.

Secondly, no matter what is said, the best the public can hope for is a deficit reduction package that will come close to meeting the present (1987) Gramm-Rudman-Hollings' target of $100 billion in fiscal year 1990. The actual result, when released in October of 1990, is more likely to be a deficit of $125 billion or more. Deficit reduction will remain a thorny problem for the President and Congress well after 1990, most likely into the next presidential term of office.

Thirdly, the deficit reduction compromise reached by President Bush and the Congress, while needed and important, will be very modest in its 1990 impact on the economy, certainly not strong enough to halt the U.S. economic expansion. Therefore my advice is to look past the deficit issue to the economic performance of the private sector.

The U.S. economy will experience slower real growth in 1989 than in 1988 — 2.7 percent versus 3.8 percent. That will be consistent with capacity additions of about 2.5 percent and allow us to hold inflation to 4.3 percent (GNP Implicit Price Deflator) and 5.0 percent (Consumer Price Index). The high-growth sectors again will be exports (8 percent real growth) and equipment purchases by businesses (up 6 percent in real terms). Both of those growth rates however are less than half of the 1988 ones (17 and 15 percent, respectively).

We expect personal consumption expenditures to rise 2.2 percent in real terms, slightly less than the 2.6 percent for 1988. For most retail goods, real demand will grow less than 2 percent while services will continue to absorb a higher percent of consumer spending.

The moderate real growth of 1989 should extend through 1990, with 2.2 percent real growth in that year. Neither U.S. fiscal policy nor monetary policy threatens to kill the expansion, and the private sector is not displaying the prominent imbalances normally preceding a recession. Therefore our Virginia forecast is based on two years of moderate but stable real growth for the United States.RLP

The Virginia Economic Outlook

The Virginia economy is coasting at the present. Not the way an automobile coasts to a halt when your foot is off of the gas pedal. More like the space shuttle coasts after engine shutdown as it moves toward orbit — decelerating certainly, but still moving at a spectacular speed with no prospect of stopping once orbit is reached.

Virginia's nonagricultural payroll job growth reached 5.7 percent in 1984, and the rate has slowed steadily since then to 4.7 percent in 1987 and 4.4 percent in 1988. The total real income (adjusted for inflation using the Consumer Price Index) of Virginia residents increased by 6.2 percent in 1986, then the growth rate fell to 5.8 percent in 1987 and an estimated 4.3 percent in 1988. By both measures, Virginia's economic growth has decelerated; but by both measures we still are growing at well above the national average. Our income gains in 1986 and 1987 ranked us among the 10 fastest-growing states, and we will place there again for 1988.

The level of income we have reached also is far above the average. The Virginia per capita income was $16,517 in 1987, the tenth highest in the nation and 107 percent of the national average. In this high-level, high-growth environment, descriptors such as "coasting" and "decelerating" describe an economy converging to its own above-average long-term trend, with growth still above the national average. Compared to the nation we are "upwardly divergent", widening our edge over the nation, and we are capable of maintaining that status well into the next century.

When the final statistics for 1988 are available, they undoubtedly will show Virginia personal income above the $100 billion mark, at $105.8 billion; and a population of 6 million, yielding an income per capita to $17,633.

The estimated payroll job growth of 4.4 percent for 1988 continues to be dominated by new jobs in the service-producing industries, which account for 57 percent of Virginia employment — wholesale and retail trade, transportation and public utilities, FIRE (finance, insurance, and real estate), and the more narrowly defined private services. Such jobs have increased 6.0 percent in 1988. Supplementing that service growth has been the continued boom in construction, with that industry's jobs rising 7.1 percent to 195,000.

For 1989 we predict Virginia income growth will barely slow down, to 8.3 percent, as total income rises to $114.6 billion. Higher inflation of 5.0 percent however holds the real income gain to 3.2 percent, a full point below the 1988 advance (see Table IV for specific numbers). Population growth also will decelerate, but the net effect will be a decline in the growth of real income per capita to 1.7 percent.

Job growth in Virginia will slow in 1989 to 3.2 percent. The main reason will be a lower 5.1 percent climb in service-producing industry jobs, with trade jobs in particular increasing more slowly. The booming expansion of commercial establishments in recent years is yielding to a more moderate pace as supply has overtaken consumer demand. For construction we expect a modest drop in 1989 employment. Both commercial and residential construction have soared since 1982, reaching levels that cannot be sustained by the current business and household growth rates in Virginia. A cutback to more sustainable levels is overdue and therefore likely to occur in 1989 and 1990. Note, though, the cutback is expected to be very moderate, 2.6 percent in 1989 and 4.2 percent in 1990.

The more moderate 1989 real income growth for Virginia will be accompanied by about the same 2-2.5 percent real gain in retail sales as in 1987. That means about

a 7.1 percent increase in actual sales receipts, slightly above the 6.8 percent predicted for 1988. No consumer buying spree, but no further belt-tightening, either. The mix of retail sales will shift, with less growth in construction-related goods and furnishings and more in personal items.

In sum, 1989 will be a year of slightly slower growth in Virginia, coasting compared to the high growth rates in recent years. Do not be fooled by these seemingly low speeds — we still will be widening the income gap between us and the nation. We also expect the same pattern of growth to continue in Virginia through 1990.RLP

TABLE IV

VIRGINIA INCOME AND EMPLOYMENT
1987 LEVEL PLUS PROJECTIONS
FOR 1988 THROUGH 1990

	1987 LEVEL	% CHANGE '87-'88	1988 LEVEL	% CHANGE '88-'89	1989 LEVEL	% CHANGE '89-'90	1990 LEVEL
INCOME ($ MILLION)	$97,515	8.5%	$105,800	8.3%	$114,600	7.5%	$123,200
POPULATION (THOUSANDS)	5,904	1.8%	6,000	1.4%	6,085	1.3%	6,165
INCOME PER CAPITA	$16,517	6.8%	$17,633	6.8%	$18,833	6.1%	$19,984
REAL PERSONAL INCOME (MILLIONS OF 1982$)	$85,841	4.3%	$89,510	3.2%	$92,337	2.4%	$94,541
REAL INCOME PER CAPITA	$14,539	2.8%	$14,918	1.7%	$15,175	1.1%	$15,335
RETAIL SALES	$37,033	6.8%	$39,550	7.1%	$42,375	6.8%	$45,300
EMPLOYMENT (000s)	2,678	4.4%	2,795	3.2%	2,885	2.3%	2,950
MANUFACTURING (000s)	429	0.2%	430	0.7%	433	0.5%	435
MINING (000s)	16	-2.6%	15	-1.3%	15	0.0%	15
CONSTRUCTION (000s)	182	7.1%	195	-2.6%	190	-4.2%	182
TRADE, SERVICES, TRANSPORTATION AND PUBLIC UTILITIES, AND FIRE (000s)	1,523	6.0%	1,615	5.1%	1,697	3.9%	1,763
GOVERNMENT (000s)	528	2.2%	540	1.9%	550	0.9%	555

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